UNITED STATES SENATE
REPUBLICAN
POLICY COMMITTEE

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October 2, 2001

***Reliable and Affordable Energy is Critical to Economy***

# We Need an Energy Plan Now To Enhance the Economy

Time and again, the United States has put off difficult decisions about its energy future. We have worried about everything *but* the fundamental question of where the energy would come from to fuel our economy. In the process, we have allowed domestic crude oil and natural gas production to lag while consumption has grown, making us increasingly dependent upon foreign sources (half of which come from the Middle East).

Unless the United States can produce more domestic oil and natural gas and make greater use of coal, our most abundant energy source, demand will be met with greater levels of imports. That means we will have even less control over our economy in the future than we do now. For this reason, Congress needs to adopt a national energy policy this year to address the fundamental problems associated with our energy infrastructure, including the delivery of natural gas, fuels for cars, trains, trucks and planes, and electricity for industrial and consumer uses.

Passage of energy legislation like that introduced by Senator Frank Murkowski, S. 389, or adoption of the House-passed bill, H.R. 4, will go a long way to addressing the problems we face.

### *A Look at the Magnitude of our Energy Problems*

It is no secret the United States is highly dependent on crude oil and natural gas for our energy needs, and the current state of technology indicates that our dependence on imports will grow throughout the foreseeable future. The Department of Energy estimates that our consumption of crude oil alone will increase more than 30 percent by 2020. Similarly, demand for natural gas is projected to grow as new electric generating capacity, mostly gas-fired, comes online over the next decade.

Yet, U.S. domestic production is falling, not rising.

- U.S. crude oil production peaked in 1970 at 9.6 million barrels per day (BPD). In 2000, U.S. crude production averaged 5.8 million BPD – 40 percent less than 30 years ago.

- Over the same period of time, imports as a percentage of U.S. petroleum deliveries rose from 23 percent to about 57 percent today.
- Proved U.S. reserves of crude oil have declined from 39 billion barrels in 1971 to 23 billion barrels by 1999.

- In 1981, 315 refineries operated in the U.S. with a total capacity of 18.6 million BPD of crude oil and other inputs. Today, 155 refineries have a total capacity of 16.5 million BPD. The U.S. now imports more than a half a million barrels per day of finished motor gasoline just to meet demand.

- U.S. natural gas imports as a percentage of consumption over the same period have risen from 4.3 percent to almost 16 percent. Proved U.S. natural gas reserves have fallen from 250 trillion cubic feet to about 167 trillion cubic feet in 2000.

Where will new natural gas and crude oil supplies come from? Unless we adopt a plan to increase domestic production, new supplies will have to be imported.

***The President's Energy Plan Addresses Our Energy Problems Comprehensively***

Faced with these problems, President Bush formed a task force headed by Vice President Dick Cheney earlier this year. His charge was to examine the nation's energy needs – both short- and long-term – and to craft a comprehensive plan to address those needs. That report, published in May 2001, examines those challenges and provides specific recommendations, such as:

- Expands conservation by increasing funds for energy efficiency programs, encourages the development of fuel-efficient vehicles, creates tax credits to encourage consumer conservation, and expands Department of Energy conservation programs.

- Modernizes and expands our energy infrastructure by expediting permitting for infrastructure improvements, expands research on reliable energy transmission, and removes regulatory barriers that stand in the way of lower energy bills and more dependability.

- Diversifies energy supplies by investing in new energy technology, by expanding the use of alternative and renewable energy sources, by providing for safe expansion of nuclear energy, by providing funding for clean coal research, and by permitting exploration for oil and natural gas on federal lands.

In July 2001, the Heritage Foundation used the DRI/WEFA, Inc. econometric model to make a detailed review of the President's plan. The report concluded that:

- The National Energy Plan's energy efficiency programs would significantly cut electricity demand over the 30-year forecast period.

- Electric transmission system infrastructure upgrades and expansions would reduce transmission losses by 50 percent by 2030.

- Consumer costs for electricity are consistently lower under the National Energy Plan than under current law.

- Demand for gasoline would be nearly 12 percent lower by 2030 than under current law.

- The plan's emphasis on exploration and development would increase total U.S. production by 27 percent above current levels by 2030.

- Under the plan, oil imports would be 16 percent lower by 2030.

For the economy, the plan would provide a much needed shot in the arm. The same Heritage-DRI/WEFA study found the following:

- Under the President's plan, Gross Domestic Product in 2025 (adjusted for inflation) would be $540 billion higher than the "by-the-book" forecast. Economic growth would increase by an average of .1 percent per year from 2005 to 2025.

- The President's plan would create over 1.5 million more jobs and the unemployment rate would average 4.8 percent instead of 5.1 percent from 2005 to 2025.

- By 2030, lower energy prices and more robust economic growth would increase disposable personal income for a family of four (adjusted for inflation) by $1,828.

- Investment (adjusted for inflation) would increase by an average of $65 billion per year from 2005 to 2025. By the end of 2025, the net capital stock would be $1.4 trillion higher under the President's energy plan.

Reduced imports, increased efficiency, higher economic growth, and more jobs – those are the benefits promised from enactment of a responsible energy policy this fall.

***Is the United States Wasting Energy? What About Renewable Sources?***

Critics of developing new domestic energy sources assume reckless use of energy by U.S. consumers in arguing that we should focus on conservation techniques. In truth the United States is making do with a lot less energy on a per-capita basis than it was only 20 years ago. Greater efficiency in use is largely a result of the marketplace, but state and federal programs have encouraged consumers to find ways to reduce energy consumption.

- In the last three decades, the U.S. economy has grown 126 percent but energy use has grown only 30 percent.

- Automobile fuel consumption has dropped 60 percent when adjusted for miles driven.

- Per capita oil consumption is down 20 percent since 1978.

- Industrial energy use is down 20 percent since 1978.

The United States should always do more to increase its energy efficiency, but conservation cannot replace energy production as a means of addressing our energy problems. Nor can renewable energies be expected to fill the gap. Renewable energy sources (not including hydroelectric energy) account for less than 2 percent of total U.S. energy – even after more than $20 billion in subsidies have been spent to boost their use.

***Who Benefits From Increased Domestic Production?***

A report following the dramatic increase in oil prices last year issued by the Center for Data Analysis (at the Heritage Foundation) found that:

- Americans would spend $74.4 billion more on energy in 2000 than in 1999 – an average of $934 more per family.

- The largest increase comes from gasoline ($41.2 billion), followed by natural gas ($13.9 billion), electricity ($10.5 billion), and fuel oil ($8.8 billion).

Who shouldered the brunt at these higher prices?

An argument sometimes made against increasing domestic production is that it would only benefit big oil companies and their wealthy owners. The reality is the poor, not the wealthy, stand to benefit the most from increasing our access to reliable, affordable energy. According to the Department of Energy, families with lower incomes spend a disproportionate amount on energy:

- A household with an average annual income of $50,000 spends about 4 percent of it on energy.

- Households with incomes between $10,000 and $24,000 spend about 13 percent.

- Households with incomes under $10,000 devote about 29 percent to energy.

A national energy plan would benefit all Americans, but a case can be made that poor families have the most to gain.

***Energy Security Is a Component of National Security***

There is no quick fix to our energy problems. But there are actions we can take now that will significantly improve our energy and economic security. Many of the measures that can contribute to

solving these problems are contained in the President's National Energy Plan. The House has already adopted many of these provisions in the form of H.R. 4. It is time for the Senate to act. The longer we wait to implement fundamental initiatives to repair our energy policy, the more severe our energy dependency, and our economic stability, likely will be.

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